

CROMAINE DISTRICT LIBRARY

FINANCIAL REPORT

June 30, 2006

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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>CROMAINE DISTRICT LIBRARY</b>	County
Fiscal Year End <b>06/30/06</b>	Opinion Date <b>9/13/06</b>	Date Audit Report Submitted to State <b>DECEMBER 27, 2006</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

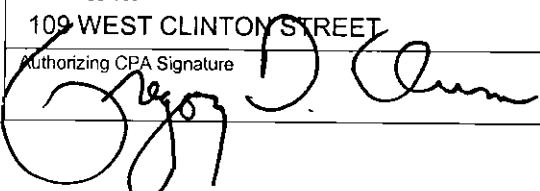
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) <b>BREDERNITZ, WAGNER &amp; CO., P.C.</b>		Telephone Number <b>(517) 546-2130</b>	
Street Address <b>109 WEST CLINTON STREET</b>		City <b>HOWELL</b>	State <b>MI</b>
Authorizing CPA Signature 		Printed Name <b>GREGORY D. CLUM, CPA</b>	Zip <b>48843</b>
		License Number <b>1101014127</b>	

**BREDERNITZ, WAGNER & CO., P.C.**

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*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
the Cromaine District Library  
Hartland, Michigan

We have audited the accompanying financial statements of the Cromaine District Library as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cromaine District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cromaine District Library as of June 30, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees of  
the Cromaine District Library  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cromaine District Library's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Bredemeyer, Wagner & Co, P.C.*

Howell, Michigan  
September 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the years Ended June 30, 2006 and June 30, 2005  
(Unaudited)

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remain for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

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The table below shows key financial information in a condensed format:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current assets	\$1,651,107	1,927,069
Capital assets	<u>2,184,760</u>	<u>1,796,062</u>
Total assets	<u>3,835,867</u>	<u>3,723,131</u>
Current liabilities	39,132	111,100
Long-term liabilities	<u>71,759</u>	<u>63,467</u>
Total liabilities	<u>110,891</u>	<u>174,567</u>
Net assets:		
Invested in capital assets, net of debt	2,113,001	1,732,595
Unrestricted	<u>1,611,975</u>	<u>1,815,969</u>
Total net assets	<u>\$3,724,976</u>	<u>3,548,564</u>
Revenue:		
Property taxes	\$1,625,653	1,538,948
Other	<u>211,318</u>	<u>183,521</u>
Total revenue	<u>1,836,971</u>	<u>1,722,469</u>
Expenses - Library services	<u>1,660,559</u>	<u>1,398,485</u>
Change in net assets	<u>\$ 176,412</u>	<u>323,984</u>

- The Library is reporting financial statements this year that meet the requirements of GASB Number 34. The primary change requires reporting all assets at full cost less depreciation expense. This includes all Library materials, which were previously recorded at \$1 per item in the General Fixed Assets Account Group, which was generally accepted practice among Libraries in Michigan.
- As a result of this change, the Library reports net assets of \$3,724,976 and \$3,548,564 on a full accrual basis, as compared to \$1,611,975 and \$1,815,969 on the modified accrual basis of accounting, for the years ended June 30, 2006 and June 30, 2005, respectively.
- The Library's primary source of revenue is from property taxes. For the years ended June 30, 2006 and June 30, 2005, total tax collections were \$1,625,653 and \$1,538,948, respectively. This represents approximately 88.5 and 89.3 percent of total revenue, respectively.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For the years ended June 30, 2006 and June 30, 2005, this expenditure was \$1,032,937 and \$894,773, representing 62.2 and 64.0 percent of the Library's total expenditures, respectively.
- Depreciation expense represents 14.4 and 14.3 percent of the Library's total expenses for the years ended June 20, 2006 and June 30, 2005, respectively.
- Total expenditures for the entire year under the modified accrual method of accounting were \$2,040,965 and \$1,787,434 for the years ended June 30, 2006 and June 30, 2005, respectively.
- The Library's conversion to meet GASB 34 Standards, which includes capitalization of Library owned assets and associated depreciation expense is reflected in the Statement of Activities on page 8 of the financial report.

#### The Library's Fund

Our analysis of the Library's General fund is included on pages 7 and 8 in the first column of the respective statements. The fund column provides detailed information about the General fund on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, - not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources. The Library's only fund is the General Fund.

The net assets of the General Fund increased during the years ended June 30, 2006 and June 30, 2005 by \$176,412 and \$323,984, respectively. This represents unspent revenue greater than expenses.

### Capital Assets and Debt Administration

As of June 30, 2006 and June 30, 2005, the Library had \$2,184,760 and \$1,796,062, respectively, invested in land, building, furniture and equipment, and books and materials. During the years ended June 30, 2006 and June 30, 2005, the Library added \$245,306 and \$165,547, respectively, in new collection items consisting of new books, various audio/visual materials, and enhancement of the music collection.

The Library's debt rating is excellent. New debt in the amount of \$9,500 was issued during the fiscal year. The Library's bonded indebtedness totaled \$46,085 and \$41,705 at June 30, 2006 and June 30, 2005, respectively.



CROMAINE DISTRICT LIBRARY  
GOVERNMENTAL FUND BALANCE SHEET /  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	General Fund, Modified Accrual Basis	Adjustments (Note 8)	Statement of Net Assets
<b>Assets</b>			
Cash and investments (Note 3)	\$ 1,606,062	-	1,606,062
Accrued interest	11,031	-	11,031
Accounts receivable	10,655	-	10,655
Prepaid expense	19,061	-	19,061
Deposits	4,298	-	4,298
Property and equipment (Note 4)	<u>-</u>	<u>2,184,760</u>	<u>2,184,760</u>
<b>Total Assets</b>	<b><u>\$ 1,651,107</u></b>	<b><u>2,184,760</u></b>	<b><u>3,835,867</u></b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 32,886	-	32,886
Due to other governmental units	6,246	-	6,246
Long term liabilities:			
Bonds payable, due within one year (Note 5)	-	5,121	5,121
Bonds payable, due after one year (Note 5)	-	40,964	40,964
Accumulated employee benefits	<u>-</u>	<u>25,674</u>	<u>25,674</u>
<b>Total Liabilities</b>	<b><u>39,132</u></b>	<b><u>71,759</u></b>	<b><u>110,891</u></b>
<b>Fund Balance/Net Assets</b>			
Fund balances - Unreserved:			
Board Designated	817,473	(817,473)	-
Undesignated	<u>794,502</u>	<u>(794,502)</u>	<u>-</u>
<b>Total Fund Balance</b>	<b><u>1,611,975</u></b>	<b><u>(1,611,975)</u></b>	<b><u>-</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 1,651,107</u></b>		
<b>Net assets:</b>			
Invested in capital assets, net of debt		2,113,001	2,113,001
Unrestricted		<u>1,611,975</u>	<u>1,611,975</u>
<b>Total net assets</b>		<b><u>\$ 3,724,976</u></b>	<b><u>3,724,976</u></b>

The notes to financial statements are an integral part of this statement.

CROMAINE DISTRICT LIBRARY  
STATEMENT OF GOVERNMENTAL REVENUE,  
EXPENDITURES, AND CHANGES IN  
FUND BALANCE / STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	General Fund, Modified <u>Accrual Basis</u>	Adjustments (Note 8)	Statement of Activities
Revenue			
Property taxes	\$ 1,625,653	-	1,625,653
State aid	24,913	-	24,913
Charges for services	5,918	-	5,918
Investment income	41,887	-	41,887
Contributions	8,341	-	8,341
Fines and forfeitures	103,832	-	103,832
Other miscellaneous	<u>26,427</u>	<u>-</u>	<u>26,427</u>
Total Revenues	<u>1,836,971</u>	<u>-</u>	<u>1,836,971</u>
Expenditures			
Administrative	15,691	-	15,691
Salaries and fringe benefits	1,029,024	3,913	1,032,937
Supplies	41,852	-	41,852
Community relations	44,511	-	44,511
Library books and materials	245,306	(245,306)	-
Professional and contractual services	70,492	-	70,492
Technology	19,727	-	19,727
Training and education	17,608	-	17,608
Insurance	15,206	-	15,206
Utilities	62,931	-	62,931
Rental	64,226	-	64,226
Repairs and maintenance	27,590	-	27,590
Capital outlay, non-capitalizable	6,649	-	6,649
Capital outlay	373,751	(373,751)	-
Depreciation	-	239,859	239,859
Debt service:			
Principal	5,121	(5,121)	-
Interest	<u>1,280</u>	<u>-</u>	<u>1,280</u>
Total Expenditures	<u>2,040,965</u>	<u>(380,406)</u>	<u>1,660,559</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures/Change in Net Assets	(203,994)	380,406	176,412
Fund Balance/Net Assets - Beginning of year	<u>1,815,969</u>	<u>1,732,595</u>	<u>3,548,564</u>
Fund Balance/Net Assets - End of year	<u>\$ 1,611,975</u>	<u>2,113,001</u>	<u>3,724,976</u>

The notes to financial statements are an integral part of this statement.

## NOTES TO COMBINED FINANCIAL STATEMENTS

## Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION

## Description of Cromaine District Library Operations:

The Cromaine District Library was organized in 1995 under the provisions of the Michigan District Library Establishment Act, Public Acts 24 of 1989. The Library serves the Hartland Consolidated School District, which includes Hartland township and portions of Tyrone, Deerfield, Brighton, Genoa and Oceola townships. The Library is governed by a seven member board of trustees elected at large from the Hartland Consolidated School District.

## Definition of the reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, these financial statements present the Cromaine District Library. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, the Library has no component units.

## Basis of presentation:

The financial statements present the fund financial statement on a modified accrual basis with an adjustment to present the statement of net assets and the statement of activities on a full accrual basis.

## Fund Financial Statements:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Library, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposed into funds which are maintained in accordance with the activities or objectives specified.

The financial activities of the Library are recorded on one fund as follows:

## Note 1. REPORTING ENTITY AND BASIS OF PRESENTATION (Concluded)

## Governmental Fund:

General Fund: This fund accounts for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes and penal fines. This fund includes the general operating expenses of the Library.

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cromaine District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

## Measurement focus/basis of accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Cromaine District Library conform to generally accepted accounting principles as applicable to governmental units.

Governmental Fund

The Governmental Fund Type (General Fund) uses a financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty-one days of the end of the fiscal period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Major revenue sources susceptible to accrual include: taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when the cash is received.

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Cash and Cash Equivalents:

Cash and cash equivalents are considered to be cash on demand deposits and short-term investments with a maturity of three months or less when acquired.

## Investments:

Investments are stated at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institution, to the interest bearing account.

## Compensated absences (vacation and sick leave):

Full-time Library employees earn vacation time in various amounts based on length of service. Sick leave is earned by full-time employees at a rate of 1 day per month of service. Upon separation, employees will be paid for the accumulated vacation time. Vacation accrued as of June 30, is recorded as a liability and expenditure in the General Fund. No payment is made for unused, accumulated sick leave upon separation. Therefore, no liability is accrued for accumulated sick leave.

## Current property taxes:

Properties are assessed as of December 31 and the related property taxes become a lien on December 1. These taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2005 State equalized valuation of the Library totaled \$1,402,424,014. The State taxable valuation of the Library totaled \$1,068,675,516 on which ad valorem taxes levied consisted of 1.6 mills raising \$1,625,653 for operating purposes.

## Capital Assets:

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	3-10 years

## Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

## Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## Budgets and budgetary accounting:

The budget of the General Fund is legally adopted through a Board resolution prior to the beginning of the budgetary year. During the year, the Library Board amended the budget to take into account events that occurred during the year. The encumbrance method of budgeting is not used. Any unexpended appropriations lapse at year end.

Formal budgetary integration is employed as a management control device for the General Fund. Budgets are prepared on a modified accrual basis, which is in conformity with generally accepted accounting principles.

## Note 3. CASH AND CASH INVESTMENTS:

At June 30, 2006, the deposits and investments of the Library are classified by Governmental Accounting and Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, money market accounts and certificates of deposit)	\$1,550,075
Investments in securities	55,787
Petty cash	<u>200</u>
Total	<u>\$1,606,062</u>

DEPOSITS

Deposits are carried at cost. The Library considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The total deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$1,599,419. Of that amount, \$1,528,115 was covered by federal depository insurance and other insurance of the investment company and \$71,304 was uninsured and uncollateralized.

## Note 3. CASH AND CASH INVESTMENTS (Concluded)

INVESTMENTS

The Library is authorized by Michigan Public Act 20- of 1943 (as amended) to invest surplus monies (of non-pension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, banker's acceptances, mutual funds and bank investment pools that are composed of authorized investment vehicles. The Library's deposits and investments are in accordance with statutory authority.

Investments at year end consisted of \$55,787 in U.S. governmental securities. The U.S. government securities are uninsured and unregistered: they are held by the counterparty's trust department in the Library's name. The deposits and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

## Note 4. PROPERTY AND EQUIPMENT

A summary of changes in property and equipment follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Land	\$ 20,000	9,500	-	29,500
Building	1,441,807	-	-	1,441,807
Building improvements	25,141	334,302	-	359,443
Computers	304,996	31,357	(46,198)	290,155
Equipment	167,668	8,092	-	175,760
Library books and materials	<u>1,304,876</u>	<u>245,306</u>	<u>(82,500)</u>	<u>1,467,682</u>
Total	3,264,488	628,557	(128,698)	3,764,347
Accumulated depreciation	<u>(1,468,426)</u>	<u>(239,859)</u>	<u>128,698</u>	<u>(1,579,587)</u>
Net Book Value \$	<u>1,796,062</u>	<u>388,698</u>	<u>-</u>	<u>2,184,760</u>

## Note 5. LONG-TERM DEBT

The following is a summary of the debt outstanding of the Library for the year ended June 30, 2006:

	Balance July 1, <u>2005</u>	Additions (Deductions)	Balance June 30, <u>2006</u>
Hartland Township Sewer Bond, Annual principal payments of \$4,170 plus interest at 2.5% until 2015	\$41,705	(4,170)	37,535
Hartland Township Sewer Bond, Annual principal payments of \$950 plus interest at 2.5% until 2015		<u>8,550</u>	<u>8,550</u>
	<u>\$41,705</u>	<u>4,380</u>	<u>46,085</u>

The annual requirements to amortize all debt outstanding as of June 30, 2006, (plus interest payments of approximately \$6,000) are as follows:

Year Ended <u>June 30,</u>	
2007	5,121
2008	5,121
2009	5,121
2010	5,121
2011	5,121
2012-2014	<u>20,480</u>
	<u>\$46,085</u>

## Note 6. PENSION PLANS

## A. Defined Contribution Retirement Plan

Plan Description. The Cromaine District Library Defined Contribution Retirement Plan is a defined contribution pension plan established in accordance with Internal Revenue Code section 403(b). All full time employees are eligible to participate in the plan after six months of service. The plan is administered by the Library. The Library contributes 10% of compensation for eligible employees. During the year ended June 30, 2006 the employer



## Note 6. PENSION PLANS (Concluded)

made contributions totaling \$48,929. Contributions are recognized in the period that the contributions are due.

## B. Tax-Deferred Annuity Plan

The Cromaine District Library Tax-Deferred Annuity Plan is a defined contribution plan established in accordance with Internal Revenue Code section 403(b). All full time employees are eligible to participate. Contributions are made through salary reductions as elected by the employee. All contributions are fully and immediately vested. During the year ended June 30, 2006, employees made contributions totaling \$38,718.

## Note 7. RISK MANAGEMENT

The Cromaine District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefit provided to employees. The library has purchased commercial insurance for medical benefit claims, settled claims for which have not exceeded the amount of insurance coverage in any of the past three years.

The Library is a member of the Michigan Municipal League Liability and Property Pool which provides members with loss protection for general liability and property and crime coverage. The pool has entered into reinsurance agreements providing for loss coverage in excess of the amounts retained by the pool and individual members. The Library's coverage on general liability and public officials' liability is \$5,000,000, with a combined liability of 5,000,000. The Library's coverage on property and crime is as follows: \$4,734,454 for buildings and personal property contents thereof, \$100,000 for valuable records and papers, \$100,000 for loss of rents, \$237,000 for electric data processing equipment and media, and \$100,000 for extra expense. There is also employee dishonesty coverage, money orders and counterfeit paper coverage, depositors forgery coverage and loss coverage for both inside and outside premises in the amount of \$100,000 for each. Any liability for losses which exceed these amounts would remain with the Library.

The Library is also a member of the Michigan Municipal League Workers Compensation. Premiums from participants are combined to provide all members with coverage for claims. The premiums and interest thereon are used to pay claims, administrative expenses and to purchase reinsurance to protect the fund from exceptionally large losses. In the event of a deficit in a fund year, assessments could be made against the members. No such assessments have been made against the Library.

Note 8. RECONCILIATION of FUND FINANCIAL STATEMENTS to GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from the net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in assets:

Total Fund Balance - Modified Accrual Basis	\$1,611,975
---	-------------

Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	2,184,760
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Long-term liabilities are not financial resources, and are not reported in the funds	(46,085)
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Compensated absences are included as a liability	<u>(25,674)</u>
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Net Assets of General Fund - Full Accrual Basis	<u>\$3,724,976</u>
---	--------------------

Net Change in Fund Balances - Modified Accrual Basis	\$ (203,994)
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in statement of revenue, expenditures, and changes in fund balance, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	245,306
Capital outlay	373,751
Depreciation	(239,859)

Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(3,913)
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Note 8. RECONCILIATION of FUND FINANCIAL STATEMENTS to GOVERNMENT-WIDE FINANCIAL STATEMENTS (Concluded)

Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)

5,121

Change in Net Assets of General Fund -  
Full Accrual Basis

\$176,412

Note 9. LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

To gain the space needed for an additional branch location, the Library entered into an operating lease agreement on February 1, 2005. Total rental expense for the year ended June 30, 2006 was \$58,982. This lease expires September 30, 2007.

The following is a summary of future annual lease payments:

Year Ended <u>June 30,</u>	
2007	\$64,144
2008	17,667

Note 10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUND

P.A. 621 OF 1978, SECTION 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, expenditures incurred in excess of amounts appropriated were as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Administrative	\$15,680	15,691	11
Supplies	38,747	41,852	3,105
Community relations	40,360	44,511	4,151
Library books and materials	222,890	245,306	22,416
Professional and contractual services	63,375	70,492	7,117

CROMAINE DISTRICT LIBRARY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 1,640,165	1,640,165	1,625,653	(14,512)
State aid	28,145	28,145	24,913	(3,232)
Charges for services	5,700	5,700	5,918	218
Investment income	52,000	52,000	41,887	(10,113)
Contributions	5,530	5,530	8,341	2,811
Fines and forfeitures	92,600	92,600	103,832	11,232
Other miscellaneous	28,600	28,600	26,427	(2,173)
Total Revenues	<u>1,852,740</u>	<u>1,852,740</u>	<u>1,836,971</u>	<u>(15,769)</u>
Expenditures				
Administrative	10,000	15,680	15,691	(11)
Salaries and fringe benefits	891,677	1,065,701	1,029,024	36,677
Supplies	35,427	38,747	41,852	(3,105)
Community relations	33,860	40,360	44,511	(4,151)
Library books and materials	170,000	222,890	245,306	(22,416)
Professional and contractual services	43,112	63,375	70,492	(7,117)
Technology	20,975	19,775	19,727	48
Training and education	16,915	17,815	17,608	207
Insurance	16,500	16,500	15,206	1,294
Utilities	49,697	64,300	62,931	1,369
Rental	210,706	64,755	64,226	529
Repairs and maintenance	55,240	28,140	27,590	550
Capital outlay	438,929	427,255	380,400	46,855
Debt service	6,465	6,465	6,401	64
Total Expenditures	<u>1,999,503</u>	<u>2,091,758</u>	<u>2,040,965</u>	<u>50,793</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(146,763)	(239,018)	(203,994)	35,024
Fund Balance - Beginning of year	<u>379,477</u>	<u>379,477</u>	<u>1,815,969</u>	<u>1,436,492</u>
Fund Balance - End of year	\$ <u>232,714</u>	<u>140,459</u>	<u>1,611,975</u>	<u>1,471,516</u>

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To the Board of Trustees and  
the Director of the Cromaine  
District Library  
Hartland, Michigan

In planning and performing our audit of the financial statements of the Cromaine District Library for the year ended June 30, 2006, we considered the Cromaine District Library's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control that is presented for your consideration. This letter does not affect our report dated September 13, 2006 on the financial statements of the Cromaine District Library. We will review the status of these comments during our next audit engagement. Our comments which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendation. Our comments are summarized in the accompanying memorandum.

We appreciate the assistance provided to us by the staff of the Cromaine District Library. This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

*Bredernitz, Wagner & Co., P.C.*

Howell, Michigan  
September 13, 2006

To the Board of Trustees and  
the Director of the Crompton  
District Library  
Hartland, Michigan  
Page 2

Status of prior year recommendations:

- 1) The Library has implemented GASB 34. One of the requirements of GASB 34 requires the capitalization and depreciation of assets that meet the capitalization policy of the Library. The Library should investigate the addition of software that will track capital assets and will compute depreciation on the assets. Such software will provide the necessary information to be in compliance with GASB 34.

Status: Recommendation has not been implemented. The Library Director has indicated a program may be available with the implementation of new software in the subsequent year.

- 2) The bookkeeper is the person in charge of reconciling the bank statement, as well as writing the checks.

We suggest that the unopened bank statements be received by the Library director. The director should open and review the bank statements and copies of the canceled checks. Any unusual items should be investigated and resolved as soon as possible. Documentation of the review of the items should be made on the face of the bank statement. These procedures will help improve controls over cash and will strengthen internal control.

Status: This recommendation has been implemented.

- 3) The Library's budgeted expenditures were less than the actual expenses incurred by the Library.

The Library should monitor and amend the budget to ensure actual expenditures do not exceed budgeted expenditures of the Library. If this amendment results in budgeted expenditures exceeding budgeted revenues, then budgeted revenues would also need to be amended to at least equal budgeted expenditures. Preparation of the budget in this manner will help ensure that the Library is in conformance with the Uniform Accounting and Budgeting Act.

Status: As discussed in Note 10 to the financial statements, there were some expenditures that exceeded budgeted expenditures during the year.

Current year recommendations:

- 1) The expenses and revenues associated with the Junior Friends checking and Junior Friends payable accounts are not being properly recorded.

Currently, the library accepts deposits on behalf of Junior Friends, debiting Cash and crediting Due to Friends. There should be two entries made, a debit to Cash, a credit to Revenues, and a debit to Junior Friends Checking, and a credit to Junior Friends Payable. For expenditures, debit the applicable expense account and credit Cash and a debit Due to Friends and credit Junior Friends Checking. Using this method will ensure that revenues and expenditures are being properly recorded.

- 2) The balance in petty cash fund did not match the Petty Cash account on the trial balance.

At the time of our review, the balance in petty cash exceeded the amount of petty cash on the balance sheet. It is our recommendation that the bookkeeper reconcile the petty cash fund to the balance sheet on a monthly basis. This will help ensure that the petty cash balance will agree with the amount recorded on the books.

- 3) The size of the Library's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

This situation dictates that the Board of Directors remain actively involved in the financial affairs of the Organization to provide oversight and independent review functions.